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Lytton Minerals Limited

Incorporated under the laws of British Columbia

Directors H. R. FRASER
 E. A. KOBLANSKI
 S. P. OGRYZLO
 H. A. MCKENZIE
 J. D. TAYLOR, Q.C.
 J. S. WARICK

Officers H. A. MCKENZIE, President
 J. S. WARICK, Executive Vice-President
 G. A. C. MACRAE, Treasurer
 C. K. TAYLOR, Q.C., Secretary

Head Office 1695 - 555 Burrard Street
 Vancouver, British Columbia

Stock Exchanges Montreal, Toronto and Vancouver

*Registrar and
Transfer Agent* Guaranty Trust Company of Canada,
 Toronto, Montreal and Vancouver

Auditors Deloitte, Haskins & Sells, Toronto

Solicitor Owen Bird, Vancouver

Cover Part of the plan of the preliminary open-pit layout
 at La Verde

Directors' Report

To the Members:

Hudson Bay Mining and Smelting Co., Limited, Anglo American Corporation of Canada Limited (Amcan), both of Toronto, your Company, and Patino, N.V., of the Hague, on June 26, 1974, jointly announced that Hudson Bay Mining and Amcan have purchased from Patino its 58.1 % interest, representing 2,898,291 shares, in your Company for \$2.75 per share, thus making the two companies your Company's principal and controlling shareholders. This joint interest, shared equally, has since been increased to 67.2 %.

Your Company at that time held a 49 % interest in Minas del Otono, S.A., of Mexico, which owns the La Verde copper deposit at Gabriel Zamora, Michoacan, 200 miles west of Mexico City. Subsequently, discussions were initiated for the acquisition of the remaining 51 % by certain Mexican investors. Hudson Bay Mining and Amcan agreed to assist in arranging for the necessary debt financing to finance the development and operation of the property.

On October 29, 1974, your Company, the Mexican Government and a private Mexican company signed an agreement in Mexico City to develop La Verde. Under the agreement, your Company holds a 48 % equity interest in Minas del Otono, S.A., to be recapitalized and renamed Compania Cuprifera La Verde, S.A., with the balance shared equally between Comision de Fomento Minero, an agency of the Mexican Government, and Desc, Sociedad de Fomento Industrial, S.A. de C.V., a private industrial holding company. Hudson Bay Mining will provide technical assistance for the project. The total cost of the project, including advances already made by Lytton, and making provision for financing charges and working capital, is estimated at \$101 million.

Earlier feasibility studies were revised during the year and planning for development of the property was well advanced at year-end. The two orebodies, together containing proven reserves of 81.3 million short tons grading 0.699 % copper plus gold and silver values, will be mined by the open-pit method; ore will be fed to the processing plant at the rate of 15,000 metric tons per day, resulting in an annual production of concentrates containing 75 million pounds of copper, 14,000 ounces of gold and 400,000 ounces of silver.

The current plan is to include provision for expansion of ore treatment to 20,000 metric tons per day. The construction and development phases of the project are estimated to take three years and it is hoped that construction can be started around mid-1975. Production of concentrates should begin around the end of the first quarter of 1978, according to present plans.

Executive Appointments

During the year Messrs. George Gutierrez, A. D. Stirling, B. C. Macdonald and W. C. Howard resigned as Directors and were replaced by Messrs. H. A. McKenzie, J. D. Taylor, Q.C., H. R. Fraser and J. S. Warick.

The following resignations were also accepted: S. P. Ogryzlo, President; G. R. W. Skerrett, Secretary-Treasurer; and R. A. White, Assistant Secretary. They were replaced by H. A. McKenzie, President; G. A. C. MacRae, Treasurer, and C. K. Taylor, Q.C., Secretary.

At the Annual Meeting held on July 10, 1974, the same Directors and Officers were re-elected and/or reappointed. In addition, Mr. Warick was appointed Executive Vice-President.

On January 9, 1975, your Company announced that the Directors have recommended to the Members (shareholders) that the capital of the Company be altered to increase the authorized capital from 5 million Class A shares with no par value to 7 million Class A shares with no par value and to create an additional \$10,000,000 of cumulative redeemable preferred shares, one-third of which will be convertible within 10 years from issue into Class A shares. The convertible shares would have a preferential dividend of 9% yearly and the non-convertible shares a 10% preferential dividend. The conversion price is equivalent to \$1.75 per Class A share.

Subject to the approval of the creation of shares, Hudson Bay Mining and Amcan have offered to purchase all of the preferred shares at such times as they are allotted by the Directors.

The Directors have authorized the calling of a general meeting of the Members (shareholders) to be held together with the annual meeting in Vancouver on March 14, 1975, for the purpose of approving the increase in capital and the allotment of the preferred shares. The proceeds of the issue of preferred shares, which will be taken down only as needed, will be used for the purpose of financing your Company's participation in the development of La Verde. The balance of the financing for the project has not as yet been arranged.

On November 1, 1974, Hudson Bay Mining appointed Donald C. Smith as Vice-President—Mexican operations. He had been General Manager of Hudson Bay Mining's potash operation (Sylvite of Canada Division) near Rocanville, Sask., since October 1, 1971. Mr. Smith took up residence in Mexico City early in 1975 and assumed, on a secondment basis, a senior position with Compania Cuprifera La Verde S.A. He has worked for a number of Canadian base-metal mining and potash mining companies. Mr. Smith joined Sylvite of Canada in January, 1968, as Mill Superintendent, was appointed Production Manager in May, 1969, and General Manager in October, 1971.

On behalf of the Board

Vancouver
February 17, 1975

H. A. MCKENZIE
President

Lytton Minerals Limited

(Incorporated under the Laws of the Province of British Columbia)

Balance Sheet as at December 31, 1974 (with 1973 figures for comparison)

Assets

	1974	1973
CURRENT ASSETS:		
Cash.....	\$ 250	\$ 24,356
Accounts receivable – affiliated companies.....	3,292	8,396
Total current assets.....	3,542	32,752
INVESTMENTS IN OTHER MINING COMPANIES – at cost:		
Minas del Otono, S.A. (Note 1):		
Shares and options.....	230,182	230,182
Advances and direct expenditures.....	3,858,705	3,812,546
Deas Lake Mines Ltd. (Note 2):		
Shares.....	139,472	139,472
Loans.....	193,797	193,797
Total investments in other mining companies.....	4,422,156	4,375,997
DEFERRED EXPLORATION AND DEVELOPMENT EXPENDITURES ON PROPERTIES UNDER INVESTIGATION – less amounts written off.....	157,580	157,580
TOTAL.....	\$4,583,278	\$4,566,329

The accompanying notes are an integral part of the financial statements.

Liabilities and shareholders' equity

	<u>1974</u>	<u>1973</u>
CURRENT LIABILITIES:		
Accounts payable:		
Trade.....	\$ 12,825	\$ 17,375
Affiliated company.....	43,071	—
Total current liabilities.....	<u>55,896</u>	<u>17,375</u>
SHAREHOLDERS' EQUITY:		
Capital stock (Note 3):		
Authorized – 5,000,000 Class A shares with no par value		
Issued and fully paid – 4,991,334 shares.....	4,931,311	4,931,311
Deficit.....	<u>403,929</u>	<u>382,357</u>
Net shareholders' equity.....	<u>4,527,382</u>	<u>4,548,954</u>
 TOTAL.....	 <u><u>\$4,583,278</u></u>	 <u><u>\$4,566,329</u></u>

Approved by the Board:

H. A. McKENZIE, Director

S. P. OGRYZLO, Director

The accompanying notes are an integral part of the financial statements.

Lytton Minerals Limited

Statement of Loss and Deficit for the year ended December 31, 1974 (with 1973 figures for comparison)

	1974	1973
CORPORATE AND ADMINISTRATIVE EXPENSES:		
Rent.....	\$ 3,200	\$ 4,800
Office and general.....	2,392	15,547
Telephone and telegraph.....	111	1,213
Transfer agent and listing fees.....	5,682	6,312
Professional fees.....	3,957	2,123
	<u>15,342</u>	<u>29,995</u>
INTEREST INCOME.....	—	5,442
LOSS FOR THE YEAR BEFORE WRITE-OFFS.....	<u>15,342</u>	<u>24,553</u>
EXPLORATION COSTS WRITTEN OFF.....	6,230	5,062
LOSS FOR THE YEAR.....	<u>21,572</u>	<u>29,615</u>
DEFICIT AT BEGINNING OF THE YEAR.....	382,357	352,742
DEFICIT AT END OF THE YEAR.....	<u>\$403,929</u>	<u>\$382,357</u>
LOSS PER SHARE.....	<u>\$0.004</u>	<u>\$0.006</u>

Statement of Changes in Financial Position for the year ended December 31, 1974 (with 1973 figures for comparison)

	1974	1973
APPLICATION OF FUNDS:		
To operations:		
Loss for the year before write-offs.....	\$ 15,342	\$ 24,553
Investment in Minas del Otono, S.A.....	46,159	116,247
Exploration and development expenditures.....	6,230	5,062
TOTAL FUNDS APPLIED AND DECREASE IN WORKING CAPITAL FOR THE YEAR....	<u>67,731</u>	<u>145,862</u>
WORKING CAPITAL AT BEGINNING OF THE YEAR.....	15,377	161,239
WORKING CAPITAL (DEFICIENCY) AT END OF THE YEAR.....	<u>\$ (52,354)</u>	<u>\$ 15,377</u>

The accompanying notes are an integral part of the financial statements.

Lytton Minerals Limited

Notes to the Financial Statements December 31, 1974

1. Minas del Otono, S.A.

Minas del Otono, S.A. (Minosa), a Mexican corporation, owns certain mining properties in the State of Michoacan, in the Republic of Mexico. Under the terms of an agreement with the shareholders of Minosa, the Company acquired in 1973 all of the Class B shares representing 49% of the issued capital of Minosa and retained the right to designate the ownership of the remaining 51% Class A shares. In January, 1974, the Company agreed to designate a Mexican national as to 1% of the Class A shares. Pursuant to an agreement executed on October 29, 1974, among the Company, its principal shareholders (Hudson Bay Mining and Smelting Co., Limited and Anglo American Corporation of Canada Limited), the Mexican Ministry of National Patrimony, The Mining Development Commission of Mexico (Fomento) and Desc, Sociedad de Fomento Industrial, S.A. de C.V. (Desc), it was agreed that Minosa would be recapitalized and renamed Compania Cuprifera La Verde, S.A., that 52% of the final capitalization would be represented by Class A shares to be held equally by Fomento and Desc and the remaining 48% to be represented by Class B shares would be held by the Company. Subsequent to year-end, the Company designated Fomento and Desc as to all but 1% of the Class A shares of Minosa. In the course of proceeding with the recapitalization of Minosa a portion of the Company's investment in Minosa will be capitalized to acquire additional Class B shares, in connection with which certain Mexican taxes may become payable, the precise amount of which is subject to settlement with the appropriate Mexican authorities.

The investment in Minosa is represented by the following:

	1974	1973
Working capital (deficiency).....	\$ (14,340)	\$ 8,002
Exploration and development.....	3,919,513	3,849,766
Fixed assets.....	183,714	184,960
	<u>\$4,088,887</u>	<u>\$4,042,728</u>

Expenditures in Mexican pesos have been translated to Canadian dollars at rates prevailing at the date of the respective transactions; working capital was translated at the year-end rate.

2. Deas Lake Mines Ltd.

Deas Lake Mines Ltd. is still in the exploration stage and has had no significant income or expenses. Its only assets are deferred exploration and development expenditures; there have been no exploration activities since 1968.

The investment in shares represents a 44% interest in the company. Exploration of the property has been financed by loans from the Company and Mitsui Mining & Smelting Co. Limited which holds an equal interest in the project. Since the loans (including interest at 6%) are repayable out of profits, no interest has been accrued by the Company.

3. Subsequent Event

At a meeting of the Company's Directors held on January 7, 1975, it was proposed that, subject to the approval of the shareholders at the Company's annual meeting, the authorized capital of the Company be increased as follows:

- (a) By creating 2,000,000 additional Class A shares with no par value.
- (b) By creating 6,700 Class B 10% cumulative redeemable, preferred shares.
- (c) By creating 3,300 Class C 9% cumulative, redeemable preferred shares each convertible into 572 Class A shares within ten years.

The Company has received an undertaking from its majority shareholders, Anglo American Corporation of Canada Limited and Hudson Bay Mining and Smelting Co., Limited to subscribe for all the Class B and Class C preferred shares so created and which the Directors deem fit to issue from time to time.

Auditors' Report

To the Shareholders of Lytton Minerals Limited:

We have examined the balance sheet of Lytton Minerals Limited as at December 31, 1974, and the statements of loss and deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. As to the Company's investment in Minas del Otono, S.A., we were furnished with the report of other accountants on their examination of the financial statements of that company.

In our opinion, which, insofar as it relates to the Company's investment in Minas del Otono, S.A., is based solely on the report of other accountants, these statements present fairly the financial position of the Company as at December 31, 1974, and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
February 17, 1975.

DELOITTE, HASKINS & SELLS
Chartered Accountants.

